

Results for Q3 FY17 — the quarter ended June 2017

EBITDA excl special items¹
US\$155 million
Q3 FY16 US\$160 million

Profit for the period
US\$58 million
Q3 FY16 US\$32 million

EPS excl special items¹
US¢11
Q3 FY16 US¢11

Net debt
US\$1,318 million
down US\$265 million year-on-year

1 Refer to the published results for detail on special items, the definition of the terms, reconciliations and supplemental information about key ratios.

US\$ million	Quarter ended			Nine months ended	
	Jun 2017	Jun 2016	Mar 2017	Jun 2017	June 2016
Key figures					
Sales	1,260	1,223	1,316	3,885	3,801
Operating profit <small>excl special items¹</small>	93	97	145	374	342
Special items (gains)/losses ¹	3	1	3	(1)	(32)
EBITDA <small>excluding special items¹</small>	155	160	208	564	530
Profit for the period	58	32	88	236	207
Basic EPS (US cents)	11	6	16	44	39
EPS <small>excluding special items (US cents)¹</small>	11	11	17	44	40
Net debt ¹	1,318	1,583	1,329	1,318	1,583

Key ratios (%)					
Operating profit <small>excl special items¹</small> to sales	7.4	7.9	11.0	9.6	9.0
ROCE ¹ <small>Operating profit excluding special items¹ to capital employed</small>	12.8	14.0	20.5	17.4	16.4
EBITDA <small>excl special items¹</small> to sales	12.3	13.1	15.8	14.5	13.9
Net debt to EBITDA <small>excl special items¹</small>	1.7	2.2	1.7	1.7	2.2
Interest cover	8.4	7.0	7.7	8.4	7.0
Net asset value per share (US cents)	304	223	290	304	223

The **third quarter** is **seasonally** the **weakest** for Sappi and **significant annual maintenance** was **completed** during the period.

Average USD **selling prices** for dissolving wood pulp (DWP) **were** higher than last year's, driven by **healthy demand** and higher viscose staple fibre prices in the Chinese market.

The European business benefited from **good demand** for most products. Price increases for coated woodfree paper were partially successful. Coated paper profitability decreased slight compared to the prior year. Conversely, the **speciality packaging** business continued to achieve **strong sales growth** and profit margins.

In the US higher DWP volumes and pricing compared to last year in addition to increased packaging and coated paper sales volumes were offset by the **ongoing weakness** of **coated paper prices**.

The South African **packaging paper** business had another **positive quarter** with higher sales volumes.

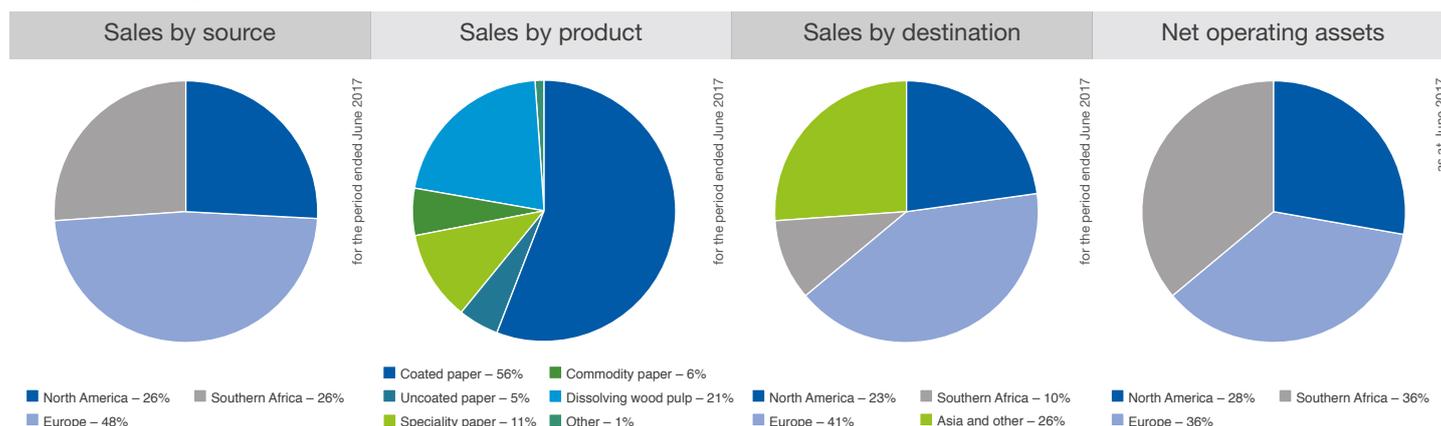


Capital expenditure of US\$78 million was related mainly to the paper machine conversion projects in Europe and North America and debottlenecking projects in South Africa. At Alfeld Mill, we are expanding our lightweight packaging and speciality paper capacity.

Net debt and finance costs further reduced

A US\$400 million bond was repaid from available cash reserves. Net finance costs were US\$16 million, a reduction from the US\$48 million in the equivalent quarter last year.

Net operating assets and sales distribution



Through intentional evolution we will continue to grow **Sappi** into a profitable and cash-generative diversified woodfibre group — focused on dissolving wood pulp, paper and products in adjacent fields.

<p>Achieve cost advantages</p> <p>Continuously improve cost position</p> <p>Continue to maximise global procurement benefits</p> <p>Best-in-class production efficiencies</p>	<p>Rationalise declining businesses</p> <p>Maximise production at low-cost mills</p> <p>Continue to convert low contributing graphic capacity to higher profitable speciality packaging grades</p>	<p>Grow through moderate investments</p> <p>Expand speciality paper and packaging grades up to 20% of group EBITDA</p> <p>Grow dissolving wood pulp capacity by up to 100,000 tons over the next two years</p>	<p>Generate cash to strengthen balance sheet</p> <p>Maintain net debt/EBITDA below 2x</p> <p>Continuously improve working capital</p> <p>Use liquidity sources to repay the maturing 2017 US\$400 million bond</p>	<p>Accelerate growth in adjacent businesses from a strong base</p> <p>Commercialise biotech opportunities</p> <p>Assess new business opportunities for commercial application</p>
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Our strategy

2017 objectives

DWP prices declined throughout the third quarter, reaching a recent low at the end of June. **Prices have subsequently moved upwards** following a similar trend in viscose staple fibre. The bulk of our DWP sales prices are based on the prior quarter average price and we can therefore expect lower pricing for the fourth quarter than that achieved in the past quarter. **Longer-term market dynamics appear favourable, with demand growth expected to exceed supply growth in the next two years.**

In Europe, **local demand for graphic paper has stabilised** somewhat and **export markets have experienced strong growth**. In contrast, markets remain difficult in the United States.

Coated paper price increases have been announced in most major markets, which should help offset rising raw material costs.

Demand for speciality packaging continues to grow, and the conversion of the paper machines at Maastricht and Somerset Mills are set to be completed in the second and third fiscal quarters of 2018 respectively. This will further boost production capacity in these grades.

Capital expenditure in the last quarter is expected to be approximately **US\$170 million**. This includes the next phase of the DWP debottlenecking project at Ngodwana Mill, the Somerset Mill wood-yard and the initial phases of the speciality packaging conversions at Maastricht and Somerset Mills.

Based on current market conditions, including higher paper pulp prices and the current Rand/Dollar exchange rate, we expect the group's fourth quarter operating performance to be slightly below that of last year. **The full year result is likely to be above that of the prior year.**

We expect to **reduce net debt further** in the coming quarter through positive cash generation. However, a significant proportion of our debt is denominated in Euros and a stronger Euro/US Dollar exchange rate negatively impacts the translation of this debt.

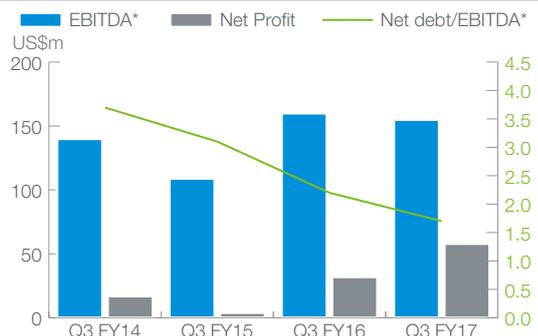


Maastricht Mill is being converted to focus predominantly on speciality grades — the conversion is expected to be completed during the second quarter of 2018.



We are investing approximately US\$165 million to convert PM1 at our Somerset Mill which will be able to produce both coated graphics paper and paper packaging products — the conversion is expected to be completed during the third quarter of 2018.

Quarter-on-quarter earnings, profit and debt



* Excluding special items

Outlook

Europe



- 6** Paper mills
- 1** Speciality paper mill
- 18** Sales offices

The **overall performance** in this seasonally slow quarter **declined slightly** compared to that of the equivalent quarter last year **largely due to higher raw material prices**, particularly paper pulp and latex.

Graphic paper sales volumes were **4% above** those of the equivalent period last year, with **stronger demand** in our **major export markets**.

The **rate of decline in demand** for **coated woodfree** and **coated mechanical** paper **moderated** in Europe in recent months.

Average net sales prices of **graphic paper** were above the prior quarter, but remain **below last year's**.

Sales in the **speciality paper** business **grew 17%** year-on-year, continuing to outpace average market growth rates of 1-5% for the products we produce.

All major variable cost categories, with the exception of wood, increased relative to last year resulting in a **3% variable costs increase**. Hardwood pulp prices continued to rise during the quarter. Latex prices have started to decline from their peak.

Fixed expenses remain well controlled and were **flat year-on-year**.



Berry Wiersum
Chief Executive Officer
Sappi Europe

North America



- 1** Paper mill
- 1** Speciality paper mill
- 1** Paper and specialised cellulose mill
- 6** Sales offices

Profitability in the North American business was the **same as the prior year**. Higher DWP sales volumes and pricing were offset by lower coated paper prices.

Coated paper volumes were **slightly higher** than last year, despite a contraction in the overall US coated paper market. Average **sales prices** were **6% lower** than the equivalent period last year as soft publication demand, the strong Dollar and greater imports continued to burden local producers.

DWP sales volumes and pricing improved for the quarter compared to last year and combined with lower delivery and variable costs contributed to a higher margin.

Packaging paper volumes increased by **23%**, led by our coated-one-side product, offset by competitive price pressure in our end markets.

The **casting and release paper** business experienced an early end to the Chinese domestic garment season, which **lowered sales volume** compared to the prior year.

Variable cost reduced as efficiency initiatives and lower wood and energy prices more than offset higher chemical and purchased paper pulp prices. Fixed costs were below last year due to **lower maintenance costs**.



Mark Gardner
President and Chief
Executive Officer
Sappi North America

Southern Africa



- 2** Paper mills
- 1** Paper and specialised cellulose mill
- 1** Specialised cellulose mill
- 1** Sawmill
- 6** Sales offices
- 492,000ha** Forests

The business results reflect the impact of a **stronger Rand/Dollar exchange rate** and higher maintenance costs due to the timing of the scheduled annual maintenance shut at Ngodwana Mill.

DWP sales volumes were **above the equivalent quarter last year** despite problems at the Durban port which resulted in the shipment of 14,000 tons being delayed to July.

Higher average Dollar prices were more than offset by the stronger Rand, resulting in a slightly lower average Rand price.

The **paper business** experienced **solid growth**, particularly for containerboard and fluting.

The latest citrus fruit export forecast for 2017 is positive and this should support packaging sales in the last quarter.

Variable and fixed costs were above those of last year and relate mainly to chemicals, energy, personnel and maintenance, albeit the **increases were below inflation**.



Alex Thiel
Chief Executive Officer
Sappi Southern Africa